

Sewer Service and Use Charge Fund

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T*o account for the financing, construction, and operation of the sanitary sewer system and for San José's share of the financing, construction, and operation of the regional San José/Santa Clara Water Pollution Control Plant (WPCP). Services provided through this fund are:*

- *Sewer maintenance;*
- *Sewer rehabilitation; and*
- *Sewage treatment at the Water Pollution Control Plant*

Sewer Service and Use Charge Fund

Budget Summary

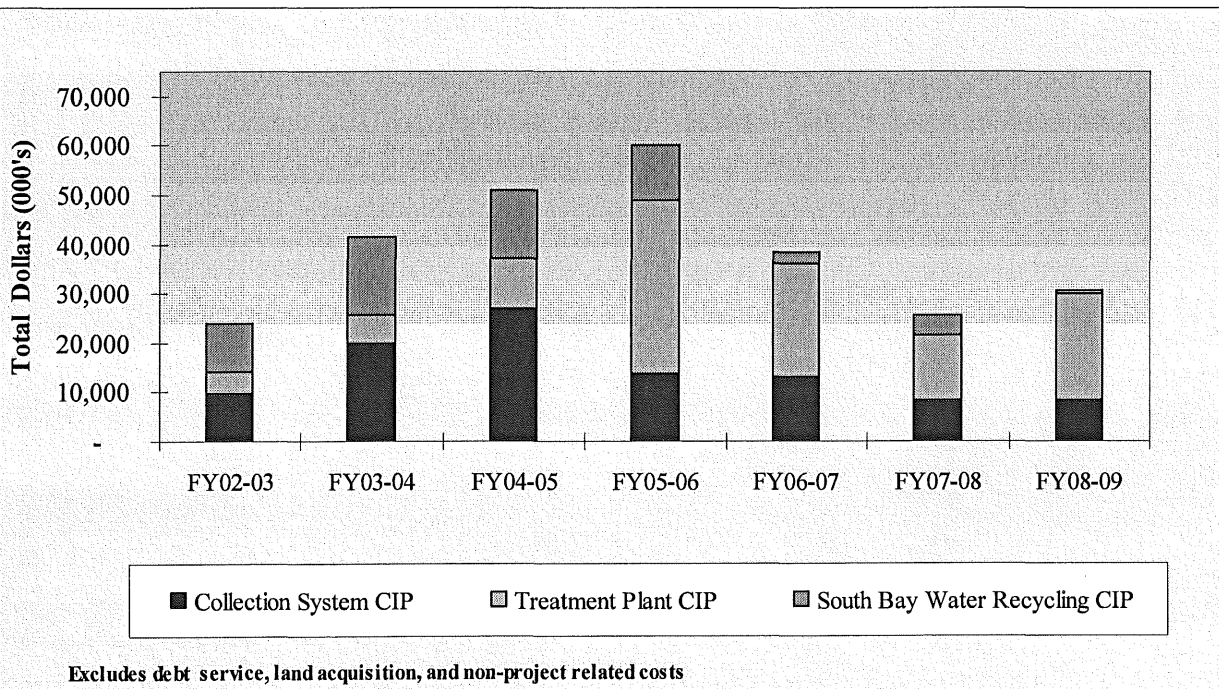
	2009-2010 Adopted	2010-2011 Adopted	Change
Sewer System Maintenance and Admin.	\$ 25,680,249	\$ 24,672,076	(3.9%)
Sanitary Sewer Rehabilitation	\$ 17,225,000	\$ 15,575,000	(9.6%)
Water Pollution Control Plant	\$ 77,798,000	\$ 77,816,000	0.0%

Budget Highlights 2010-2011

- ❑ A rate increase of 6% to the Sewer Service and Use Charge fee will take place in order to adequately fund maintenance and rehabilitation of the sanitary sewer system, Water Pollution Control Plant, and South Bay Water Recycling program.
- ❑ Additional funds are included in the 2010-2011 Adopted Operating Budget for training and succession planning at the Water Pollution Control Plant, heavy equipment acquisitions, increased chemical costs, and air permit assistance.

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Sewer Service and Use Charge Fund Historical Trend of Expenditures For Capital Projects (Includes Collection System, Treatment Plant, and Water Recycling Programs)



Sewer Service and Use Charge Fund

Fund Overview

The Sewer Service and Use Charge Fund serves as the primary revenue source for several other funds, including the San José/Santa Clara Treatment Plant Operating and Capital Funds and the Sewer Service and Use Charge Capital Improvement Fund. In coordination with the Departments of Environmental Services, Public Works, and Transportation, these funds are managed to deliver services in the most efficient and cost-effective manner.

The primary source of the Sewer Service and Use Charge Fund's revenues are the fees paid through property tax-based assessments within the residential and commercial sectors. Prior to 2004-2005, these fees had remained unchanged for ten years. Since 2004-2005, the rates have been increased annually between 4.5% and 15%. For a single-family household, this has increased the average monthly rate from \$18.96 to \$32.86; an annual average of 3.3% over the seventeen-year period from 1994-1995 to 2010-2011. These increases were necessary in order to provide sufficient funding to address deferred capital rehabilitation for the collection system and the treatment facility; to address changes to regulatory requirements; as well as to keep pace with the standard inflationary costs associated with the operations and maintenance of both systems. In 2010-2011, a 6% rate increase to the Sewer Service and Use fee will take place. This will increase the cost for a single family household by \$1.86 per month, from \$31.00 per month to \$32.86.

Independent consultant studies conducted in the past decade have noted that both systems had significant amounts of aging infrastructure. Most notably, over 50% of the Water Pollution Control Plant's primary assets exceed thirty years of service. In response to this, both systems are currently undergoing comprehensive master planning efforts. The

Plant's Master Plan will be completed in 2010-2011 and will guide the development of a new financing strategy to implement the projects to be identified. A similar plan is expected for the collection system by 2011-2012. Both of these master plans will identify needs and priorities for the next thirty years and will be used to guide capital budget planning.

With these master planning efforts coming to completion, larger annual capital programs may be proposed for both systems in the coming years. As plans are further developed, decisions will need to be made about the desired level of investment and funding in projects arising out of the master plans.

In addition to the possible need for increased capital funding, standard inflationary factors, such as cost of living increases, chemicals, materials and other like costs associated with the operations and maintenance of both systems may necessitate higher rate increases. The additional costs are being driven by factors such as the need for increased chemical expenditures in the treatment of sewage to reduce regulated emissions which are a byproduct of the process. There is also the need for increased personnel for enhanced training programs as greater numbers of personnel are expected to retire over the next five years, leaving the Plant with fewer experienced workers in certain trade groups.

Included in the fund balance is a Rate Stabilization Reserve of \$2.0 million, which was established in response to covenants in the bonds issued in 1995 to finance the construction of the South Bay Water Recycling (SBWR) project. Since the refinancing of the bond in 2005-2006 and the refinancing of the variable rate portion in 2008-2009, the annual debt service cost for the SBWR project is \$5.7 million. Included in the budget is a \$6 million debt service reserve.

Sewer Service and Use Charge Fund

Fund Overview (Cont'd.)

In order to sustain and maintain the critical infrastructure rehabilitation plans and meet the operations and maintenance demands, a rate increase of 6% will take place in 2010-2011 and similar increases are anticipated for 2011-2012

and 2012-2013. These increases will generate additional revenue estimated at \$6.9 million in 2010-2011 and over the course of the three years, are expected to bring in an estimated additional \$22.7 million.

Fund Summary

	2008-2009 Actual 1	2009-2010 Adopted 2	2010-2011 Adopted 3	% Change (2 to 3)
Dollars by Sources				
Beginning Fund Balance	\$ 28,166,851	\$ 22,245,339	\$ 25,515,126	14.7%
Sewer Service and Use Charges	101,684,606	117,295,914	122,292,771	4.3%
Interest and Other	1,090,554	481,487	346,300	(28.1%)
Transfers and Loans	109,004	5,600,000	147,573	(97.4%)
Total	\$ 131,051,015	\$ 145,622,740	\$ 148,301,770	1.8%
Dollars by Uses				
Sewer System Maintenance and Admin.	\$ 21,911,589	\$ 25,680,249	\$ 24,672,076	(3.9%)
Sanitary Sewer Rehabilitation	15,970,000	17,225,000	15,575,000	(9.6%)
Water Pollution Control Plant	71,138,000	77,798,000	77,816,000	0.0%
Ending Fund Balance	22,031,426	24,919,491	30,238,694	21.3%
Total	\$ 131,051,015	\$ 145,622,740	\$ 148,301,770	1.8%

Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Overview

This category is responsible for Sewer System Maintenance and Administrative Services. Sewer System Maintenance and repair of damaged sewer pipes are performed by the Departments of Transportation, Public Works, and General Services. In addition to this, Information Technology (IT) Department service costs are

included in the Sewer System Maintenance category, reflecting the supporting role that the IT Department plays in maintaining the system. The Administrative Services category includes costs for support services provided by various City departments, overhead to the General Fund, fees charged by the County for collecting assessments, and audit costs.

Budget Category Summary

Sewer System Maintenance and Administrative Services	2008-2009 Actual 1	2009-2010 Adopted 2	2010-2011 Adopted 3	% Change (2 to 3)
Sewer System Maintenance	\$ 14,634,133	\$ 16,500,888	\$ 16,116,046	(2.3%)
Administrative Services	7,277,456	9,179,361	8,556,030	(6.8%)
Total	\$ 21,911,589	\$ 25,680,249	\$ 24,672,076	(3.9%)

The following changes are included in 2010-2011 in the Sewer System Maintenance and Administrative Services allocations:

Adopted Allocation	2009-2010 Adopted	2010-2011 Adopted	Change
Sewer System Maintenance and Administrative Services	\$ 25,680,249	\$ 24,672,076	\$ (1,008,173)

Sewer System Maintenance

Base Adjustments

(One-time Prior Year Expenditures Deleted/Technical Adjustments to Costs of Ongoing Activities):

- Department of Transportation (DOT) Non-Personal/ Equipment Elimination of one-time costs for Sewer Maintenance Equipment, Video Inspection Trucks, Sewer Lines Repair Equipment, and Emergency Pumps Discharge Hoses (\$2,009,677)
- DOT, PW, IT, and GS Personal Services Salary/benefit changes and position reallocations \$517,153
- PW Non-Personal/ Equipment Public Works Capital Support Charges \$24,401

Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Summary (Cont'd.)

Adopted Allocation		Change
Sewer System Maintenance (Cont'd.)		
<u>Base Adjustments (Cont'd)</u>		
• IT Non-Personal/ Equipment	Increase in hardware and maintenance contracts including the Integrated Billing System (IBS) database	\$3,586
Subtotal Base Adjustments		(\$1,464,537)
<u>Budget Proposals Approved</u>		
• IT Personal Services	Technology Business Applications Management	(\$20,547)
• DOT Personal Services	Department of Transportation Management and Professional Employees Total Compensation Reduction	(\$12,053)
• DOT Non-Personal/Equipment	Vehicle Maintenance Staffing and Contractual Services	(\$45,705)
	City Facilities Solid Waste Collection Contract Funding Reallocation	(\$32,000)
	Sewer Maintenance Vector Trucks	\$850,000
	Utility and Maintenance Trucks	\$225,000
	Sewer Lines Repair Equipment	\$75,000
	Maybury VoIP Upgrade	\$40,000
Subtotal Budget Proposals Approved		\$1,079,695
Subtotal Sewer System Maintenance		\$ (384,842)

Administrative Services

Base Adjustments

(One-time Prior Year Expenditures Deleted/Technical Adjustments to Costs of Ongoing Activities):

• Overhead	Decrease in overhead paid to the General Fund	(\$613,821)
• ESD Non/Personal Equipment	Administrative funding realignment	(\$4,149)
• PBCE, ESD, CMO, Finance, and CAO Personal Services	Salary/benefit changes and position reallocations	\$99,699
• Collection Costs	Technical adjustments to costs incurred for Storm Fee collection	\$13,547
Subtotal Base Adjustments		(\$504,724)

Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Summary (Cont'd.)

Adopted Allocation		Change
Administrative Services (Cont'd.)		
<u>Budget Proposals Approved</u>		
• City Attorney Personal Services	Chief Trial Attorney, Chief Deputy City Attorney, and Senior Deputy City Attorney Staffing	(\$56,410)
• Overhead	Decrease in overhead paid to the General Fund	(\$144,430)
• Retiree Healthcare	Elimination of funding for the Retiree Healthcare Reserve	(\$36,093)
• Various Personal Services	Management and Professional Employees Total Compensation Reduction actions for the following departments: Office of the City Manager; Office of the City Attorney; Finance; Planning, Building and Code Enforcement; and Environmental Services	(\$16,398)
• City Manager Personal Services	Legislative Public Policy Director	(\$11,330)
• Finance Personal Services	Payment Processing Efficiencies	(\$329)
• ESD Personal Services	Environmental Services Department Administrative Support Staffing	(\$4,308)
• CMO Personal Services	Intergovernmental Relations Administrative Support Staffing	(\$861)
• Environmental Services Non-Personal/ Equipment	Household Hazardous Waste Program	\$100,000
	City Facilities Solid Waste Collection Contract Funding Reallocation	\$32,000
	Corporation Yard Storage Area Protections	\$4,000
• Transfer to City Hall Debt Service Fund	Increased payment to the City Hall Debt Service Fund	\$13,803
• Commercial Paper	Integrated Billing System (IBS) Commercial Paper repayment	\$1,749
Subtotal Budget Proposals Approved		(\$118,607)
Subtotal Administrative Services		\$ (623,331)
Total Sewer System Maintenance and Administrative Services	\$ 25,680,249	\$ 24,672,076
		\$ (1,008,173)

Sewer Service and Use Charge Fund

Budget Category: Sanitary Sewer Rehabilitation

Budget Category Overview

The Sanitary Sewer System Rehabilitation category consists of capital projects designed to rehabilitate the sanitary sewer system and enhance sewer capacity to meet economic development. Higher priority is given to larger lines and to those with extensive, severe deterioration. Rehabilitation projects of existing sewers are selected on the basis of pipe corrosion studies, maintenance reports, infiltration analysis, and actual pipe failures.

Eighty-two percent of the sanitary sewer system, approximately 1,750 miles, was constructed between 1950 and 1979. Thus, a significant portion of the system has reached or will reach the 100-year age milestone within the next fifty years. Depending on the type of pipe used, soil conditions, construction practices, and flows, a sewer can generally last from 50 to 100 years. At this point it is unclear whether the age of the sewers will lead to a significant increase in

replacement costs in the near future, or if the sewers will continue to operate well beyond the 50 year design life.

During 2009-2010 an estimated 12,300 feet of sanitary sewers were replaced and approximately 8,500 feet of sewers were rehabilitated. Under the new Sanitary Sewer Condition Assessment program, approximately 300,000 feet of sewers were video inspected. Pump stations (PS) and/or force mains (FM) including the Lamplighter FM, Spreckles FM and Montague PS were evaluated. The new San José Sanitary Sewer Master Plan for the North, South, and Central areas was completed in June 2004 and the Sanitary Sewer Master Plan for the East and West areas will be completed in 2010. Once the master plan is completed, it will help identify sewer capacity deficiencies in the existing system, and project additional capacities required to meet future demands.

Budget Category Summary

	2008-2009 Actual 1	2009-2010 Adopted 2	2010-2011 Adopted 3	% Change (2 to 3)
Sanitary Sewer Rehabilitation				
Transfer to Capital Fund	\$ 15,970,000	\$ 17,225,000	\$ 15,575,000	(9.6%)
Total	\$ 15,970,000	\$ 17,225,000	\$ 15,575,000	(9.6%)

Sewer Service and Use Charge Fund

Budget Category: Sanitary Sewer Rehabilitation

Budget Category Summary (Cont'd.)

The following changes are included in 2010-2011 for the Transfer to Capital Fund allocation:

Adopted Allocation	2009-2010 Adopted	2010-2011 Adopted	Change
Transfer to Capital Fund	\$ 17,225,000	\$ 15,575,000	\$ (1,650,000)
<u>Budget Proposals Approved</u>			
<ul style="list-style-type: none">Transfer to Sewer Service and Use Charge Capital Improvement Fund	This transfer supports major projects in the Sewer Service and Use Charge Capital Improvement Fund to address infrastructure rehabilitation and replacement in the City's sanitary sewer system. The specific elements of this program are described in the 2010-2011 Adopted Capital Budget and 2011-2015 Adopted Capital Improvement Program.		(\$1,650,000)
Subtotal Budget Proposals Approved			(\$1,650,000)
Total Sanitary Sewer Rehabilitation	\$ 17,225,000	\$ 15,575,000	\$ (1,650,000)

Sewer Service and Use Charge Fund

Budget Category: Water Pollution Control Plant

Budget Category Overview

This category provides for operational and capital costs, support services, and debt service requirements for the San José/Santa Clara Water Pollution Control Plant (Plant). This regional wastewater treatment facility serves seven tributary sewage collection agencies, including municipalities and sanitary

sewer districts. The Plant processes wastewater, operates a Bio-solids Reuse Program, and administers the South Bay Water Recycling Project. In addition, it plans, designs, and constructs new wastewater treatment facilities and provides system maintenance.

Budget Category Summary

Water Pollution Control Plant	2008-2009 Actual 1	2009-2010 Adopted 2	2010-2011 Adopted 3	% Change (2 to 3)
Treatment Plant Operating Fund	\$ 46,500,000	\$ 45,051,000	\$ 51,000,000	13.2%
Treatment Plant Capital Fund	24,638,000	32,747,000	26,816,000	(18.1%)
Total	\$ 71,138,000	\$ 77,798,000	\$ 77,816,000	0.0%

Transfers to the Treatment Plant Operating Fund and the Treatment Plant Capital Fund support the operating, capital, and debt service costs of the San José/Santa Clara Water Pollution Control Plant.

The Plant is one of the largest and most complex advanced wastewater treatment facilities in the nation. The Plant's Operating and Maintenance program continues its core function of meeting the Plant's National Pollutant Discharge Elimination System (NPDES) permit by ensuring that flows from the sanitary sewer system to the Bay are free of pollutants. Calendar year 2009 marked the eighth year in a row that the Plant has had no violations of its NPDES permit.

In addition to meeting regulatory requirements, the Plant continues its multi-year asset management, facility reliability, and cost efficiency efforts. Significant progress has been made toward implementing an Asset

Management program. Major accomplishments toward this goal include a new Computerized Maintenance Management System (CMMS), which went live in July 2009. Asset Management is an important part of the Plant's long-term reliability plan and is essential for the facility to manage its over \$1 billion worth of assets.

Facility reliability continues to be a focus during the third year of a five year Enhanced Preventative Maintenance Program. The primary goal of the Program is to reduce emergency and corrective equipment failures, which can cost five times more than planned maintenance activities.

Energy efficiency continues to be an important part of controlling operations and maintenance costs at the Plant. Continued investment in energy saving projects such as pulsed aeration, more efficient pumps, variable-frequency drives, and demand-side management of

Sewer Service and Use Charge Fund

Budget Category: Water Pollution Control Plant

Budget Category Summary (Cont'd.)

energy are being explored and implemented.

During the past fifty years, nearly \$1 billion in today's dollars has been invested to transform the Plant from a basic primary level treatment facility to a state-of-the-art advanced treatment

plant. As the majority of the Plant's infrastructure reaches and exceeds thirty years of service, critical infrastructure such as electrical distribution systems, concrete structures, pumps, motors, piping and valves need to be replaced or rehabilitated.

The following changes are included in 2010-2011 for transfers from the Sewer Service and Use Charge Fund to the Treatment Plant Operating Fund and Treatment Plant Capital Fund:

Adopted Allocation	2009-2010 Adopted	2010-2011 Adopted	Change
Treatment Plant Operating Fund	\$ 45,051,000	\$ 51,000,000	\$ 5,949,000
<u>Budget Proposals Approved</u>			
• Transfer to the San José/ Santa Clara Treatment Plant Operating Fund	This transfer pays for program expenses related to the Water Pollution Control Plant. Transfer amounts from this fund to the Treatment Plant Operating Fund vary each year based on the anticipated ending fund balance in that fund.		\$5,949,000
Subtotal Budget Proposals Approved			\$5,949,000
Treatment Plant Capital Fund	32,747,000	26,816,000	(5,931,000)
<u>Budget Proposals Approved</u>			
• Transfer to the San José/ Santa Clara Treatment Plant Capital Fund	For 2010-2011, the decreased transfer reflects the annual fluctuation of project costs and phases, and total available personnel to support each project. Despite the decreased amount, activity continues at a significantly higher level compared to previous years, as the program advances a significant number of critical projects identified during a consultant's study in 2006-2007. The full value of these projects is estimated at \$250 million.		(\$5,931,000)
Subtotal Budget Proposals Approved			(\$5,931,000)
Total Water Pollution Control Plant	\$ 77,798,000	\$ 77,816,000	\$ 18,000

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